

FY 2004 STATE SCHOOL AID PRORATION QUESTIONS AND ANSWERS

Q-1. Is state school aid being prorated for fiscal year 2004?

A. Yes

Q-2. Why is state school aid being prorated?

A. Fiscal year 2004 state school aid is being prorated because the State Treasurer, House Fiscal Agency, Senate Fiscal Agency and the Department of Management and Budget have agreed (in conferences held in October 2003 and January 2004) that the projected school aid revenues (sales tax, state education tax, income tax etc.) will not sustain the fiscal year 2004 school aid appropriation.

Q-3. On what authority is school aid prorated?

A. Section 11 of the State School Aid Act (MCL 388.1611) governs state school aid proration. Section 11(3) says that payments made pursuant to the State School Aid Act will be prorated whenever the Department of Treasury notifies the State Budget Director and the State Budget Director notifies the legislature that school aid payments must be reduced down to the level of the "amount available for expenditures" (revenue).

Q-4. Is there no other option than to prorate school aid?

A. The legislature may prevent proration from occurring by, within 30 calendar days or six (6) legislative session days after notification of the need to prorate school aid by the State Budget Director, enacting legislation appropriating additional funds to the school aid fund. Or, the legislature could enact legislation that would reduce or eliminate "targeted programs," thereby making available funds that could reduce or eliminate the need for a general (overall) school aid proration.

(Note: For fiscal year 2004 the legislature has passed and the governor has signed legislation (SB852) that paused an income tax reduction of .1% for six (6) months and dedicates a portion of that additional revenue to the school aid fund. This legislation reduces the overall amount of proration that is necessary.)

Q-5. Are all school aid funds subject to proration?

A. No, the language in Section 11(4) of the State School Aid Act exempts payments under certain sections of the act from proration. The sections are commonly referred to as "protected" items. The items protected from proration are: Section 11f (Non-Durant Settlement), Section 11g (Non-Durant Debt Services), Section 22a (Proposal A Obligation), Section 31d (School Lunch), Section 51a(2) (ISD Special Education

Headlee), Section 51a(12) (Special Education Other Foundations), Section 51c (Local District Special Education Headlee), Section 53a (Court/State Agency Placed Pupils), and Section 56 (Special Education Millage Equalization).

Q-6. Fiscal Year 2003 state school aid was also prorated. Is the proration calculation formula for fiscal year 2004 the same as fiscal year 2003?

A. No, the proration language in Subsections 11(3) and 11(4) of the State School Aid Act was amended. Prior to fiscal year 2004, the language in Subsection 11(3) stated that school aid proration would be applied to the “unprotected” school aid sections on an equal percentage basis for both local and intermediate school districts. The amended language says that for any proration necessary after 2002-2003, the department shall calculate the proration in district and intermediate district payments that is required under subsection 11(3) as follows:

- (a) The department shall calculate the percentage of total state school aid allocated under this act for the affected fiscal year for local districts and intermediate districts.
- (b) The department shall recover a percentage of the proration amount required under subsection 11(3) that is equal to the percentage calculated for districts by calculating an equal dollar amount per pupil as necessary to recover this percentage of the proration amount and reducing each district’s total state school aid from state sources, other than payments under sections 11f, 11g, 22a, 31d, 51a(2), 51a(12), 51c, 53a, and 56, by that amount.
- (c) The department shall recover a percentage of the proration amount required under subsection 11(3) that is equal to the percentage calculated for intermediate districts by reducing payments to intermediate districts, other than payments under sections 11f, 11g, 22a, 31d, 51a(2), 51A(12), 51c, 53a and 56, on an equal percentage basis.

Q-7. Are there any other major differences between the fiscal years 2003 and 2004 proration?

A. Yes, for fiscal year 2004 both local districts and intermediate districts are given considerably more latitude in determining which of their state aid funded programs will be affected by the proration. In fiscal year 2003 the state determined which programs were affected by the proration by reducing the unprotected state aid allowances on the State School Aid Financial Status Report on a percentage basis. In fiscal year 2004, the proration shows as a single dollar amount (negative) on the status report. Local and intermediate districts are to determine for themselves which state aid programs they will apply the state aid reduction against. The one restriction is that none of the proration may be applied against the protected items mentioned above.

Q-8. Since the proration calculation for local districts is done on a per pupil basis, does that mean that my per pupil foundation grant has been reduced by that amount?

A. No, a district's per pupil foundation is calculated based on the formulas in Section 20 of the State School Aid Act. Each local district has the same per pupil foundation grant in fiscal year 2004 that it had in fiscal year 2003.

Q-9. Does the fiscal year 2004 proration affect my foundation funds?

A. It may or may not depending on how the district chooses to spread the proration. See answer to the next question.

Q-10. What choices do local districts have in spreading/applying the proration against their school aid funds?

A. Districts are free to spread the proration against their choice of unprotected school aid items. Here are three examples of how a district might choose to spread the proration.

- 1) Apply 100% of proration against the Section 22b Discretionary funds.
- 2) Apply the proration against unprotected state school aid items at the same percentage that each item bears to the total of the district's unprotected school aid.
- 3) Apply the proration to each of the districts unprotected school aid items other than the Section 22b Discretionary Payment at 100% and the balance of the proration against the Section 22b Discretionary Payment.

Q-11. Are intermediate schools restricted to applying the proration on an equal percentage basis since their amount is calculated on a percentage basis?

A. No, intermediate schools have the same latitude as local districts. Intermediates may apply the dollar amount of proration that shows on the State School Aid Financial Status Report on the line labeled "11.3 ISD Proration" against their unprotected school aid by a formula of their choosing.

Q-12. Where should our district apply the fiscal year 2004 state school aid proration?

A. Each district must make its own decision as to which fiscal year 2004 unprotected state school aid funds it wishes to reduce due to proration. Some factors to consider when making this decision include:

- Matching Funds – are the funds used as match to help earn additional funds?
- Maintenance of Effort – will the manner in which the district treats the school aid proration affect any Maintenance of Effort requirements? It is possible that the LEA may have to make up for State revenue shortfalls with local resources.

Q-13. May I apply this year's proration against prior year "carryover" funds?

- A. No, the fiscal year 2004 proration is a reduction of fiscal year 2004 school aid appropriations and should be treated as such. Unprotected fiscal year 2003 funds were prorated previously by the formula applicable in fiscal year 2003.
- Q-14. May the district simply cancel a program against which it wishes to apply the proration?
- A. It is a local decision as to whether or not a district will run a specific program (Adult Ed, Vocational Ed, Advanced/Accelerated Learning, etc.). However, in order to apply the proration against a certain school aid program, the district must have a current year “allowance” for the program on the State School Aid Financial Status Report in an amount that is at least equal to the proration amount applied against the program. For example, to apply \$28,500 of proration against the Adult Ed Program, the district must have at least earned \$28,500 in Adult Ed (Section 107) funds. Since each Adult Ed FTE that meets the course objective generates \$2,850, the district would have to educate 10 Adult Ed participants who met the course objectives to generate \$28,500.
- Q-15. Our ISD is the fiscal agent for a consortium of categorical funds (i.e. Adult Ed, Michigan School Readiness). May we apply the proration against state aid consortium funding?
- A. Yes, the ISD’s may (technically) apply the proration against the consortium funding that they received for unprotected school aid programs. However, ISD’s are encouraged to take into consideration the fact that their constituent district’s have administered the program (i.e. Adult Ed, Michigan School Readiness) and should not bear an inordinate amount of the proration deduction.
- Q-16. Does the State of Michigan/Michigan Department of Education need to know where on the district’s books they have recorded the proration? In other words, does the state need to know on which program(s) the district chose to recognize the revenue reduction?
- A. The Office of State Aid and School Finance at the Michigan Department of Education does not need to know where the districts decide to take the revenue cut. Ultimately, the revenue data will be reported to the Office via the Financial Information Database (FID). The House and Senate Fiscal Agencies and the Department of Management and Budget have advised that they do not need the information either. For other interested offices, see next question.
- Q-17. Do the various offices such as Career and Technical Education, Adult Education and/or Field Services that administer state school aid categorical programs such as Vocational Education Added Cost (Section 61a), Adult Education (Section 107), and At Risk . (Section 31a) need to know where a district recognizes the school aid proration?

- A. It is possible that the offices mentioned above may need information related to individual local and/or intermediate district's proration. If so, they will provide you with specific program reporting requirements. Remember that proration affects the revenue side of a districts ledger. If for any reason expenditures are reduced, the school must consider how that will affect such things as their grant award, matching requirements and maintenance of effort.